TELRIC “Reform” -- WC Docket No. 03-173

Americatel Corporation

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BOC Advocacy on Costs for Pricing is Inconsistent

- Prior to the requirement to offer UNEs, the BOCs consistently supported the use of forward-looking incremental costs & argued that embedded costs should not be considered in pricing telecom services
  - Example -Iowa Docket RPU 79-35 (repricing intrastate private line services based on incremental costs because of competition)
- Now that they face unbundling obligations, the BOCs want to recover historic costs -- an entirely inconsistent and self-serving position

Iowa Docket No. RPU 79-35

- The BOCs have historically supported the use of forward-looking costs as the only economically rational costs for pricing telecom services
  - "The unit incremental costs for private line service measure the change in direct costs (or savings of costs) resulting from the provision of additional (or fewer) units of that service. The costs are at a 1980 level for the type of equipment we anticipate purchasing to provide private line service during the next three to five years." Northwestern Bell Telephone Co., (now Qwest), Iowa Docket No. RPU-79-35
  - Costs should be developed based on the type of network equipment that would likely be purchased over the next three-to-five years, rather than on what was actually being used to provide service. *Id.*

Iowa Docket No. RPU 79-35 (cont'd)

- "Second, to raise eyebrows at the assumptions necessary to make it logically certain that MC [Marginal Cost] pricing will maximize social well being, and to indicate difficulties in the use of marginal cost concepts, is not the same thing as to advocate embedded or any other cost as the appropriate cost upon which to base prices." *Id.*
- "To establish embedded (or other) costs as appropriate costs upon which to base prices it must be shown that any such costs are not subject to the same and worse criticisms than is current marginal cost." *Id.*
- "Embedded direct costs are historical, and hence are irrelevant for setting prices in future time periods." *Id.*

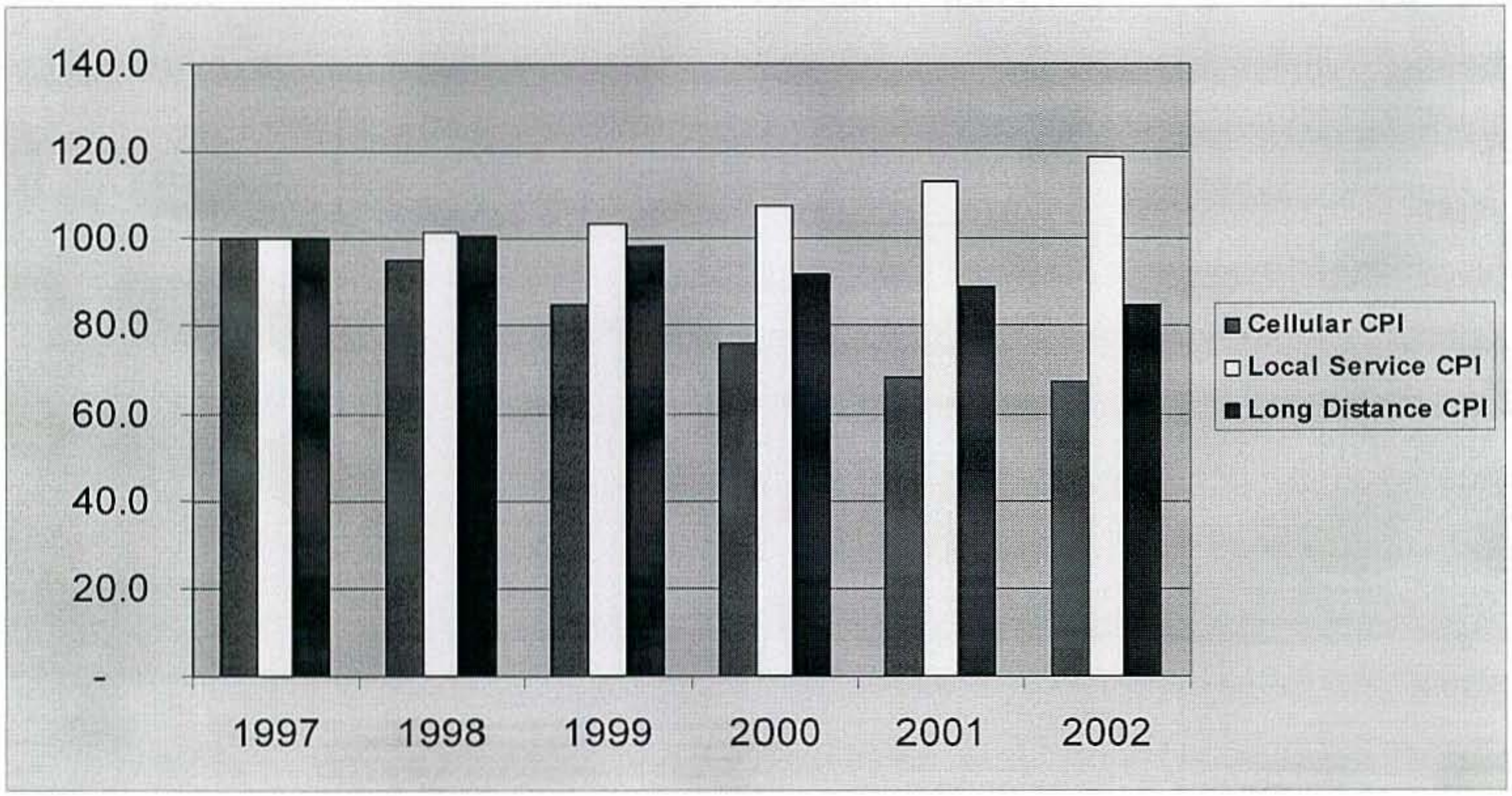
Why the Change?

- There is certainly nothing improper about the BOCs changing position -- however, this type of radical change from a long-held position should be accompanied by an explanation for the change
- The BOCs do not have an economically sound theory for radically changing their preferred costs-for-pricing formula
- Rather, the changed position is an attempt to raise UNE prices to competitors
- The BOCs have increased financial needs that provide an incentive to stifle competition, *e.g.*,
  - Qwest - recovery from prior management's fraud & financial losses
  - SBC & BellSouth - agreeing to pay $41 billion for AT&T Wireless

The Local Market is not Competitive

- The BOCs generally argue that TELRIC reform is needed, in part, because the local market is competitive
- The local market is not competitive because competition drives prices lower and the FCC's data demonstrates that prices for local service, as compared to mobile and long distance services, have increased since the '96 Act became law

Competition & Price Changes



Source: FCC 03-150, Table 8

TELRIC Relief Must be Denied

- Therefore, there should be no changes in the TELRIC rules that would result in higher UNE rates
- The FCC should not grant the BOCs any additional regulatory relief unless and until prices for local services decline in a fashion similar to those for mobile and long distance services